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Approach to Foreign Economic Issues

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Following is a statement by Myer Rashish, Under Secretary for Economic Affairs, before the Joint Economic Committee of the Congress on July 14, 1981.

I am pleased to appear before this committee in its consideration of foreign economic policy. This committee and you, in particular, Mr. Chairman [Representative Henry S. Reuss], have played a prominent leadership role in making the American people aware of the importance of a vigorous U.S. international economic policy to the health of the U.S. economy and to our foreign policy objectives.

We both are concerned about many of the same issues. From our respective vantage points in the executive and legislative branches, we share a responsibility for establishing the crucial linkages between foreign economic policy, on the one hand, and both U.S. foreign policy objectives and domestic economic policy objectives, on the other. It is the close connections among these three policy dimensions that I wish to emphasize in my presentation today.

I am sure that the committee will agree that in today's world economic issues are increasingly becoming the very stuff of foreign policy. This is clearly illustrated by the intensive preparations now underway for the Ottawa summit [July 19–21]. The economic and political issues which the heads of government will be discussing at Montebello, just outside of Ottawa, are so closely intertwined as to be inseparable.

On the other hand, foreign economic issues are increasingly tied to the operation of the domestic economy. Trade now represents nearly twice as high a percentage of our gross national product than it did 10 years ago. (In 1970 U.S. exports constituted 4.5% and today they constitute 8.4% of our GNP.) U.S. monetary policy and its implications for the macroeconomic policies of our chief trading partners are among the chief concerns of the political leadership in Europe and Japan. Inevitably, the Administration's goals for the domestic economy will affect—and be affected by—developments on the international scene.

Ultimately, our responsibility is to craft and implement a U.S. foreign policy which takes into account all our interests—our security needs, our resource requirements, our trade and investment concerns, our need for good working relations with the many countries a world power must deal with in today's interdependent world. Of course, the success of such a foreign policy is dependent on a dynamic domestic economy. The President's economic recovery program is thus central to our foreign economic policy, and the role the State Department plays in foreign policy rests on close coordination with the agencies primarily responsible for our domestic economy.

I would like to illustrate this general approach to foreign economic policy by

briefly reviewing with you five principal areas of concern:

- Energy supply and independence;
- Trade;
- International investment and finance;
- Support for economic development; and finally
- The very special economic ties we have with our closest allies and neighbors.

Energy

While rapid oil price rises and occasional supply interruptions can cripple economic growth and increase inflationary pressures in consuming countries, it is the national security implications of the unhealthy dependence of the United States and the other major industrialized countries that are most disturbing to this Administration. It is impossible to think about such widely disparate issues as the Middle East peace process, the present condition of the international monetary and commercial banking systems or the financial solvency of key developing countries without reaching back to the dependence of the international system on imported oil and on a small group of oil suppliers.

To reduce that dependence, this Administration is emphasizing, in the first instance, market-oriented policies to enhance supply and to restrain demand. A key element has been the President's decision to implement a realistic energy pricing policy. Oil price decontrol and eventual deregulation of natural gas prices are essential steps in eliciting increased production and discouraging inefficient use of energy. Other important supply-oriented policies are now under development. We aim to accelerate leasing of off-shore oil, resolve regulatory and institutional problems inhibiting the use of nuclear power, and remove impediments to increased production, use, and export of coal. Our extensive coal resources need to be developed; we are confident that private industry will be able to expand output and improve infrastructure for delivery of coal exports as long as government provides a reasonable regulatory climate.

The U.S. response to market forces in energy has been impressive. Oil consumption in the first half of 1981 is running at 16 million barrels per day, the lowest level since 1973. Oil imports for the half year are running just over 5 million barrels per day, 3½ million barrels per day below the 1977 peak. The decline in U.S. domestic oil production has, at least temporarily, been halted.

U.S. Trade With Developing Countries, 1980
($ billion and percent)

	U.S. Imports	U.S. Exports
World TOTAL	**241.2** (100%)	**220.7** (100%)
Developing Countries SUBTOTAL	**114.4** (47%)	**82.3** (37%)
OPEC	52.1 (21%)	17.8 (8%)
Non-oil Exporters	62.3 (26%)	64.5 (29%)

Source: U.S. Department of Commerce, *Highlights of U.S. Import and Export Trade*, December 1980

Yet increased production and more efficient energy use in the United States addresses only part of the energy problem. Preparedness to adjust to energy market disruptions is vital. Supplies can be disrupted, as we have seen, by political conflict and social upheaval and by sudden demand surges. The obvious examples of these dangers stem from the Middle East; less visible is prospective Western European dependence on the Soviet Union for substantial amounts of natural gas which has the potential for unhealthy influence.

We must be prepared to counter these threats to our energy security by national action and international cooperation. Nationally, an effective strategic petroleum reserve is crucial. The reserve is the basis for crude oil security, to be used in response to a major oil supply interruption and in the framework of a response coordinated with our partners in the International Energy Agency (IEA).

Purchases of crude oil for the strategic petroleum reserve were resumed in October of last year at a rate of about 100,000 barrels per day. The fill rate has accelerated sharply in the past 6 months. Since the beginning of FY 1981, 70 million barrels have been added to the reserve, bringing the total in storage as of June 30 to 163 million barrels. The current oversupply of crude oil in world markets and resulting lower prices have enabled us to achieve a faster than anticipated fill rate. We now expect to have approximately 200 million barrels in storage by the end of FY 1981, taking into account contracts already signed and projected purchases. This will be an important step toward our currently scheduled 1989 target of 750 million barrels.

While a petroleum reserve is one element of our energy and national security policy, other elements, involving international cooperation, are also required. It would be a serious mistake to believe that U.S. energy supply or national security could be maintained in a world in which our allies were crippled and the world trading economy sundered by serious price shocks or supply disruption. For this reason, cooperative efforts with other industrialized countries are fundamental to our energy security policy. The International Energy Agency is the prime forum for this cooperation. The IEA emergency oil-sharing system, designed to counter catastrophic shortfalls, is the keystone of this energy security policy. In addition, we have learned also from the recent past that smaller, or even threatened, shortfalls can also lead to harmful price rises, and IEA consultations are underway to try to find appropriate contingency measures for these situations.

A sound energy policy also requires good relations with reliable producers. Investment climates need to be improved; discriminatory policies, such as those in our neighbor to the north, favoring domestic investment can reduce optimal energy investment to everyone's detriment.

We will not relax our search for energy security in the face of the current oversupply of crude oil on world markets. This quest for energy security will probably bring us into contact with almost every conceivable aspect of foreign and economic policies and we are prepared to insure that our policies reflect that critical objective.

Trade

Current challenges in the trade field arise out of the success—in both foreign policy and economic terms—of the basic policies adopted after World War II. The U.S. goal then in establishing the General Agreement on Tariffs and Trade (GATT) and urging our trading partners to establish a more open and market-oriented trading system was to increase both world prosperity and international interdependence through the expansion of trade. World trade expanded fivefold between 1970 and 1980, while OECD [Organization for Economic Cooperation and Development] exports as a share of GNP rose from 10.7% to 16%. By 1979 the average tariff levels in

the developed countries had fallen to 10.6%. The cuts agreed to in the Tokyo Round of multilateral trade negotiations will further reduce tariff levels to 4.5%.

We need to continue this expansion of trade which has contributed so much to our prosperity and added stability to the international environment. Last week, Ambassador Brock [William E. Brock, U.S. Trade Representative] presented to the Senate Banking and Finance Committees a comprehensive Administration policy statement outlining our approach to trade. The approach emphasizes that it remains important to strengthen the institutions which have served us well in the trade field, principally GATT. We will be facing a number of new challenges, however.

U.S. trade with the Soviet Union and Eastern Europe has expanded considerably during the 1970s, with these countries providing significant markets particularly for U.S. agricultural products. Our exports of wheat and coarse grains to the U.S.S.R. in 1979–80 came to 15.2 million tons. While we recognize the important contribution these exports have made to the U.S. economy, we cannot view economic exchanges in isolation. This Administration is determined to insure that economic relations with the East are consistent with broad U.S. political and strategic objectives.

On the other hand, we recognize that continued economic ties between these countries and the United States and the rest of the world can be in our interest, particularly to the extent that these ties serve to reinforce the East's stake in the orderly functioning of the world economy and to encourage them to engage in responsible international behavior. For both economic and political reasons, therefore, this Administration intends to maintain a prudent level of economic relations with due regard for security interests and for the differences between our market-oriented economy and their centrally planned systems.

• We need to balance our desire to increase exports against our other interests, including the need to avoid having U.S. exports contribute to the military potential of the recipient country.

• The United States cannot have an effective policy on trade with these countries unless our policy is in harmony with that of our major trading partners. We need to achieve a common perception of the balance between security and commercial interests for the Western allies as a whole.

Major Developing Country Trading Partners of U.S., 1980
($ billion)

	U.S. Imports	U.S. Exports
Brazil	3.7	4.3
Hong Kong	4.7	2.7
Israel	.9	2.0
Korea	4.1	4.7
Mexico	12.5	15.1
Nigeria	10.9	1.1
Saudi Arabia	12.5	5.8
Singapore	1.9	3.0
Taiwan	6.9	4.3
Venezuela	5.3	4.6
TOTAL	**63.4**	**47.6**

Source: U.S. Department of Commerce, *Highlights of U.S. Import and Export Trade*, December 1980

• The problems of fair trade are peculiarly difficult to deal with in the case of countries which do not apply market pricing principles within their own economies. The concepts of dumping and subsidies have no place in their system, but the U.S. Government must deal with them as they impact trade in the United States.

• In the trade field as in the political sphere, there are important differences among the Eastern European countries. Some are more open to international trade than others; some have moved toward instituting a genuine pricing system and effective tariffs; four are members of the GATT. In addition, they are at differing levels of economic development. This Administration will make every effort where possible to tailor our approach to the individual country.

Our trade with other countries is less likely to raise security issues but is of crucial importance nonetheless. We are concerned that trade be conducted according to mutually agreed "rules of the game." One of the major accomplishments of the Tokyo Round was to make a start at dealing with the nontariff barriers which, in an era of relatively low duties, act as the major impediment to international trade. The "codes" agreed to during these negotiations are being put into effect. We need to make them work as effectively as possible and to develop greater international discipline and a body of case law in such key fields as the use of export subsidies, dumping, and international bidding for government procurement.

In addition, a number of areas important to U.S. trade have hitherto not been the subject of much international discipline. Trade in services and the potential trade distortions from the investment performance criteria and incentives adopted by a number of countries are but two examples that come to mind. Trade in services is one of the most dynamic components in our economy. Our 1979 export receipts in this area totaled more than $76 billion. That is almost a fourfold increase over the 1971 level of $19.1 billion. Services account for 27% of U.S. exports and employ 70% of the nonagricultural U.S. work force.

In both areas we need to develop an international consensus which will facilitate trade and discourage back-door means of protectionism.

The emergence of China as an important actor in the world trade arena poses challenges and opportunities for U.S. businessmen and policymakers, as well as for the world trading system as a whole. China's exports increased from $8 billion in 1977 to over $13.5 billion in 1979. China's imports over the same period grew even more rapidly from $6.6 billion to $14.7 billion.

Another challenge we must meet stems from the increasingly important role of the developing countries in world trade. Our trade with the developing countries has expanded rapidly over the past decade: imports by 25% per year, exports by 18% per year, compared with 15% increases in trade with the developed countries. The less developed countries as a group account for 37% of our exports and 47% of our imports and they are now a more important trading partner for the United States than the European Community, Canada, or Japan. Within this group, a small number of countries often referred to as the "newly industrializing countries" (Mexico, Brazil, Singapore, Hong Kong, Taiwan, Korea, and Israel) accounts for over half of trade between the United States and non-oil less developed countries (LDCs). The United States needs to respond to their competition in a way which will encourage world prosperity and will increase the stake these countries have in an orderly world trading system. Given their importance as an export market, maintaining an open U.S. market is essential to our export expansion strategy as well. This Administration will be encouraging the developing countries generally and the more advanced, in particular, to take on the disciplines of the international trading system.

The other non-oil developing countries urgently need to increase their exports in order to finance increasingly expensive imports. Export earnings are a more significant source of development finance than aid, both in terms of the amount of money involved and by virtue of the economic efficiency which a successful export industry represents. Although U.S. aid totaled $4.7 billion in 1979, in that year U.S. imports from LDCs totaled $92.5 billion and nearly half of this ($43.7 billion) came from the non-OPEC [Organization of Petroleum Exporting Countries] LDCs. Keeping our market open to the exports of developing countries and providing the very modest degree of incentive embodied in our generalized system of preferences scheme are integral parts of our broader policy with respect to these countries.

Although my main theme today is the "foreign" aspects of foreign economic policy, I cannot leave the subject of trade without a word about the competitiveness of U.S. industry. U.S. efforts to continue the progress made so far in developing a more orderly trading system and to respond to the new challenge of the developing countries will ultimately fail unless they are backed by a vigorous U.S. economy. In our response to the difficulties caused by import competition in sensitive sectors, we need to insure that we encourage economic efficiency rather than reward weakness. Adjustment assistance and safeguard measures can ease the problems firms and workers face as our economy adapts to new circumstances, but we will be relying primarily on market forces to bring about the necessary adjustment.

On the export side, the overall health of the economy, once again, will be the key factor in determining how well our products do. The amount and effectiveness of investment, our ability to control inflation, and the growth in productivity are all crucial.

The Administration is also reviewing various aspects of U.S. law and policy which have had the unintended side effect of discouraging exports, such as the Foreign Corrupt Practices Act and the operation of our export controls. The Administration is also working internationally to reduce barriers to U.S. goods.

International Finance and Investment

In an increasingly interdependent world, the smooth operation of the financial system is a vital prerequisite to increasing world trade, and both are equally essential to prosperity. The 1979–80 oil price increase resulted in an OPEC current account surplus of about $120 billion last year, nearly double the 1979 level. The counterpart to this enormous surplus was a $47 billion deficit among the non-oil developing countries. Whether OPEC's surpluses will remain a "sword of Damocles" hanging over the international financial system depends considerably on the future path of oil prices and on the ability of deficit countries to use the current lull in rising energy costs to implement the structural reform of their economies necessary to right their external accounts.

It is expected that the OPEC surplus and the industrialized countries' deficit will moderate this year to about $100 and $20 billion respectively. The industrialized countries should be able to finance their deficits with little trouble. For the most part, these countries are following slow growth and anti-inflationary policies and thus adjusting to the higher relative costs of oil.

The non-oil LDCs' combined current account deficit is likely to rise somewhat, to upward of $95 billion. We do not expect this to cause a generalized debt problem. However, those countries that do not move to implement sound economic policies will find access to external finance more limited and more costly than previously.

The international financial system can ill afford a repetition of the policies of the mid-1970s when many countries tried to finance growth through domestic credit expansion and external borrowing. Even with a lull in the rising price of energy and the possibility that OPEC's surplus will dwindle rapidly, 1981 is quite different from 1973–75. Many countries already have incurred considerable new debt, and a larger proportion is on commercial terms. Interest rates are higher both in nominal and real terms. Thus, those countries dependent on external finance from commercial sources must run that much faster just to be able to service a given level of debt. Debt service now absorbs 20% of these countries' export earnings, up from 13% in the mid-1970s.

The private markets are quite liquid and the supply of funds to creditworthy countries is unlikely to be a problem. However, many banks are reaching their own external limits on exposure, and they will be increasingly selective in adding new exposure.

It is essential that we begin to explore longer term solutions to the recycling problem. Private banks will undoubtedly continue to play the predominant role in the recycling process. However, the International Monetary Fund (IMF), through access to its own resources and its influence on the judgments of the private market, will play a more pivotal role in countries with balance-of-payments problems.

To do so, the IMF has been given more flexibility. Resources available from the IMF have been increased and the terms of repayment extended in some cases in recognition of the longer periods required to implement effective adjustment programs under current international economic conditions. The guidelines for conditionality—domestic programs required of borrowers under IMF programs—have been modified to take more explicit account of the underlying causes of the financing problems as well as the borrowing countries' social, political, and economic priorities.

The Fund borrowing of $5–6 billion over the next several years (including from Saudi Arabia) will help bolster the IMF's ability to supply balance-of-payments financing and, to the extent that others can be involved, bring the surplus OPEC countries more directly into the recycling process.

We are encouraging this expansion of the IMF's role and resources. We believe that a multilateral institution like the IMF is especially well placed to encourage developing countries to adjust their economic policies, as we believe they must, to current international realities. The economic stakes for the countries concerned are very high. So are the foreign policy and economic stakes for the United States if failure to encourage adequate adjustment were to result in the economic collapse of countries important to the United States.

With this in mind, the Reagan Administration has also reviewed its approach to international monetary policy. Our basic principle is that the marketplace should be allowed to work. Accordingly, we will intervene in foreign

exchange markets only when necessary to counter disorderly market conditions. We believe that this is consistent with the Administration's efforts to address economic fundamentals rather than attempt in vain to fine-tune our approach. We hope that the emphasis on basics will reduce the likelihood of disorderly foreign exchange markets.

Given the size of the U.S. economy and its international trade and financial linkages, U.S. monetary and fiscal policies are legitimately of major concern abroad. Right now we are going through a difficult transitional phase. The clash between our anti-inflationary monetary policy and deep-seated inflationary expectations has temporarily produced very high interest rates, causing painful effects in our own economy and complicating policy choices for our economic partners. High U.S. rates have added to downward pressures on the exchange value of some foreign currencies and have contributed to the increase in interest rates abroad, even though some policymakers abroad would have preferred lower rates in support of investment and economic recovery. I would like to underline, however, that domestic economic conditions and political factors in the United States and many of our key trading partners have been the principal cause of exchange rate and interest rate developments. Lower interest rates can be attained on a sustainable basis only by reducing the rate of inflation and the inflationary expectations which are built into present high nominal rates.

We are sometimes charged with placing an undue burden on monetary policy in the anti-inflationary fight and thus aggravating the interest-rate problem. While monetary control surely is a necessary condition for reducing inflation, the Administration has also proposed a restrictive fiscal package and expects to have the smallest deficit as a share of GNP among the major countries. Over the next few years fiscal policy will be guided by the commitment to balanced budgets.

These issues have been discussed with our partners in the OECD, in the summit preparatory meetings as well as bilateral meetings. Much progress has been made in enhancing mutual understanding, and, given the common objective of restoring vigorous, noninflationary growth, I believe a further convergence of views is probable at the summit.

Turning briefly to investment policy, we believe that market forces rather than government fiat result in the most efficient distribution of investments. Consistent with this view, U.S. investment policy has for many years been based on the principle of nonintervention in the private sector decisionmaking process. As a corollary, the U.S. Government has avoided actively promoting or discouraging private investment overseas. Our policy supports a general principle of national treatment for foreign enterprises—i.e., foreign enterprises should be treated no less favorably than domestic investors in like situations.

U.S. investment overseas has been increasing in recent years. By the end of 1979 (on a balance-of-payments basis), the stock of U.S. direct investment abroad had reached an estimated $192.6 billion, up 15% from the previous year's figure of $167.8 billion. U.S. investment in Europe and Canada account for over half of U.S. investment abroad (about $122 billion), and investment in developed countries comes to about 72% of the total. We should also keep in mind that receipts from those investments totaled nearly $38 billion in 1979.

The United States has maintained an open investment climate, and we believe that the attractiveness of the U.S. investment climate has led to a largely beneficial increase in investment in this country. As a general principle, foreign investors should not receive any special advantages which are not available to domestic investors in the U.S. economy.

Most OECD countries maintain a similar open investment climate, though we are concerned about trends in the other direction in Canada and have been discussing this issue with the Canadian Government. Developing countries are in some cases more restrictive. We want to remove U.S. Government impediments to U.S. investment abroad, for example, in the tax and regulatory area. We also want to insure that U.S. investors overseas receive fair and equitable treatment. We will, for instance, seek greater international discipline in the use of investment incentives and performance requirements. We will continue to work, bilaterally and multilaterally, for the goal of an open investment system—one that is based to the extent possible on a common framework and understanding of the basic ground rules.

Support for Economic Development

Support for economic development in poorer countries has been an important element in U.S. foreign policy for the past 30 years, and given the economic and strategic picture of some key developing countries it is likely to remain so for some time to come.

This Administration has been taking a careful look at our economic policies toward developing countries, to make sure that U.S. policies accord closely with our tangible economic and security interests in such sensitive areas as the Caribbean Basin, the Middle East, the areas bordering Afghanistan and the Persian Gulf, and others. Aid allocations will reflect these interests as well as humanitarian concerns.

Historically, U.S. aid has been extended both as direct bilateral assistance and through multilateral institutions. The Administration is examining the balance between these channels, in an attempt to insure that our choice of aid tools reflects the different interests our aid programs should serve. We plan to complete by September a review of U.S. policy on participation in future replenishments or expansions of multilateral development banks.

U.S. budget revisions have affected all areas, including foreign assistance. Our essential aid expenditures in FY 1982 will nonetheless be about 15% above the current fiscal year.

This Administration believes it important to emphasize, however, that economic development includes other elements besides aid. One of the most important steps this Administration can take for development is to restore and maintain a growing U.S. economy without inflation. This encourages the development process through linkages that are often more important than external aid flows. The most important among these are:

- Markets open to the exports of developing countries;
- Domestic economic policies that facilitate overall growth and investment in these countries; and
- Access to capital markets.

Even within the broad category of external financing of development, concentration on the relatively small official aid contributions sometimes leads us to forget the much larger flows from the rest of our economy. U.S. imports from developing countries in 1979 were nearly

nine times our official aid flows. The same type of relationship holds for all the Western aid-giving nations as a group. U.S. direct investment in the developing countries runs at or above the level of aid, and LDC use of private capital markets results in commercial bank loans and bond issues far exceeding development assistance. In 1979 alone, commercial banks provided $37 billion to the LDCs, while flows of official development assistance from all donors in the Development Assistance Committee of the OECD were $22 billion.

These factors suggest that the United States should pay greater attention to the role of the private sector in the development process. U.S. business is involved directly in trade, investment, technology transfer, and financing in the developing world, and the private sector in many developing countries could, with the proper encouragement, play a much greater role. The Administration, in consultation with the business community, is reviewing what can be done to facilitate private sector involvement in the development process while fully respecting its private character.

Relations between developing and developed countries have also been the focus of a great deal of international debate in recent years. The United States has been an active participant in this dialogue, as I am sure you are all aware. We participated in last year's effort to work out a suitable agenda and procedures for global negotiations. Because we took this process seriously, we felt that it was essential to include provisions that would protect essential U.S. interests and preserve the integrity of existing international institutions. In view of the continuing disagreements among the countries concerned on how such negotiations should be set up, the Administration proposed to the U.N. General Assembly last May that the issue of global negotiations be deferred until the next General Assembly in the fall.

Cancun Summit

As an indication of the importance we attach to these issues, President Reagan has accepted an invitation from President Lopez Portillo of Mexico to attend an international meeting on cooperation and development in Cancun on October 22 and 23. We view this meeting as a useful opportunity for President Reagan to meet with heads of government from 22 industrialized and developing countries for an exchange of views on global economic problems and opportunities. The 11 cosponsoring nations have told us they plan an open and informal meeting with no set agenda and no communique. We expect that the discussion will include such vital issues as food, energy, trade, population growth, and world ecological developments. The heads of government may also consider whether global negotiations are a useful forum for addressing them, though we hope the focus at Cancun will be more substantive than procedural.

We prefer to postpone any decision on global negotiations until the heads of government have had a chance to exchange views at Cancun. We plan to work closely with the Ottawa summit countries and other participants to insure that the Cancun summit is as constructive as possible.

Economic Relations with Key Friends

The Administration attaches special importance to our economic relations with certain key friends whose ties to the United States are particularly intimate and long standing. We have moved, through close cooperation at all levels of our governments, to strengthen our economic ties with our neighbors on the North American Continent. These relations received a strong boost from the warm rapport that President Reagan has developed with his counterparts in Canada and Mexico.

Summit Meeting. One of the duties which I have assumed is that of the President's personal representative for economic summits. The preparatory process for the July 19–21 Ottawa summit was launched in earnest in February when the personal representatives of the seven participating countries plus the European Community met in London. Since then the representatives have met three times—in late April, early June, and early July. In these meetings we developed a work program and reviewed papers presented by individual personal representatives on relevant topics. The preparatory process has been very important in crystallizing the key issues and improving communications among our governments. As a result, the importance on domestic economic recovery in all our countries emerged as a dominant theme. There is a general consensus that our capacity to strengthen our security, to expand assistance to developing countries, and to resist protectionist actions all hinge upon controlling domestic inflation and expanding output.

In addition to domestic economic policies, such issues as economic relations with the Soviet Union and Eastern Europe, our relations with developing countries, and energy and trade will be central issues for discussion. Obviously, when the heads of government meet, they will touch on international political issues of concern at that moment. The summit will provide President Reagan with an excellent opportunity to explain his domestic economic recovery program and to provide the framework within which he will pursue his policies on these various international issues. This summit should result in a greater understanding of U.S. policies, and we and our allies hopefully will come away with a commitment to common approaches for dealing with some of the issues. In our preparatory work to date, I sense that our allies share this view. We will, of course, discuss U.S. policy on these issues with others of our allies who are not participating in the summit.

The Ottawa summit scheduled for July 19–21 is the seventh annual meeting of the heads of government. In comparison with previous summits, we expect the discussion to be more freewheeling and the communique less detailed. With this session, the first round of summits will have been completed. We believe that these summits have been valuable thus far as a forum for an intimate exchange of views among heads of government.

Conclusion

Given the complexity of global U.S. interests, it is risky to pick out a few guiding themes for U.S. foreign economic policy. Let me conclude by trying to do so nonetheless.

First, in all aspects of our foreign economic policy the United States needs to integrate to the fullest our economic and our security interests.

Second, the Administration believes in the efficiency of the marketplace and had considerable skepticism about the effectiveness of government efforts to

supplant it. This belief will affect the Administration's views on the policy tools it believes our government and others should use in pursuit of our economic and foreign policy objectives.

Third, the Administration is persuaded that a more effective integration of the world economy is essential to our well-being both economically and politically. Vigorous and fair trade, a world investment climate which encourages the development of productive enterprises, smoothly functioning financial markets, and the sound economic expansion of the developing countries—these are the key requirements for a more integrated world economy. Moreover, they contribute to an international environment in which the United States can more effectively pursue its broader foreign policy goals.

Fourth, we are aware of the economic interdependence between the United States and our allies and the ramifications U.S. economic policy has for political relations. We believe that the President's economic recovery plan will lay the foundation not only for a more vigorous U.S. economy but also for stronger and healthier ties with our allies. We have also sought more directly in these first months to bolster our general economic relationship with the other members of the Western alliance. Our initiatives to enhance energy security, to place East-West trade in a broader political context and to reduce tensions resulting from trade issues have resulted in a generally good spirit of mutual cooperation within the alliance.

Looking toward the Ottawa summit, our allies generally support our desire to move away from a discussion of detailed economic issues that characterized past summits to a more general and free-wheeling discussion among heads of state which would seek to highlight the areas of shared perceptions. We are confident that this spirit will help the summit countries—and the Western alliance—meet the challenges of the next decade.

I have sought to provide the committee with a broad brush view of the Administration's international economic policies. Nevertheless, I would like to reiterate that the Administration is still in the process of reviewing important elements of that policy. As we progress in fleshing out our policies in these critical areas, I will, of course, be prepared to keep the committee fully informed and to come back and discuss these vital issues with you. ■

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